



COMMENTS OF THE SOLAR ENERGY INDUSTRIES ASSOCIATION ON THE DEVELOPMENT OF THE NEXT SOLAR INCENTIVE PROGRAM

To the Massachusetts Department of Energy Resources

6.30.16

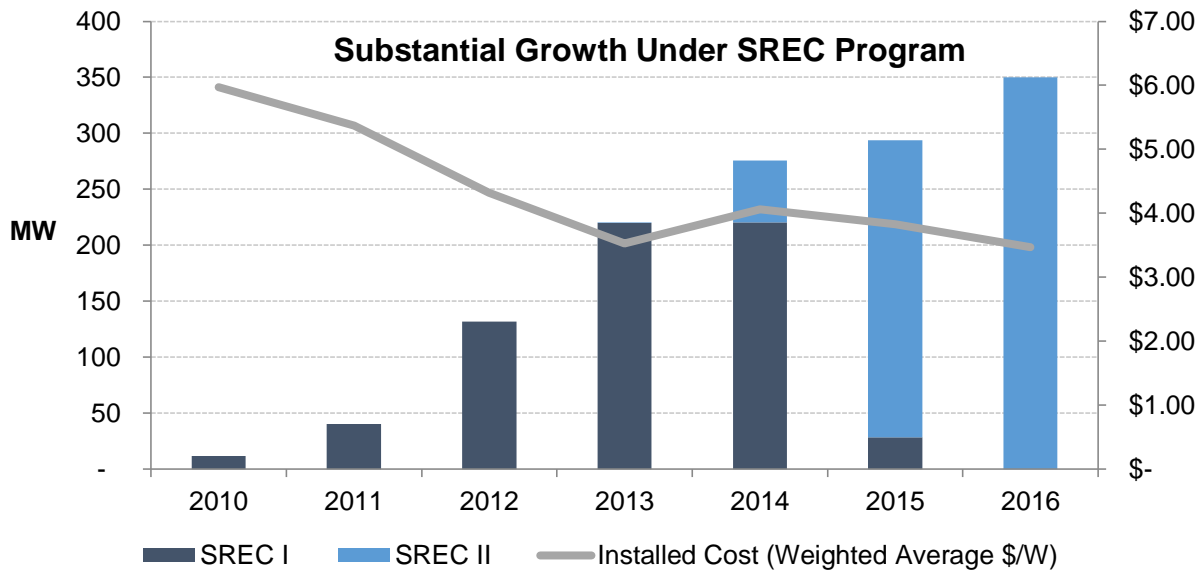
The Solar Energy Industries Association (SEIA) thanks the Massachusetts Department of Energy Resources (DOER) for soliciting comments on the design of the next solar incentive program and for holding listening sessions. SEIA member companies have a strong interest in the specific design elements of the new program. We look forward to working closely with DOER, the utilities, and other stakeholders on designing a program that helps the Commonwealth achieve its energy and environmental goals, reduces costs, and continues to create solar industry jobs.

Established in 1974, SEIA is the national trade association of the United States solar energy industry and is a broad-based voice of the solar industry in Massachusetts. Through advocacy and education, SEIA and its 1,000 member companies are building a strong solar industry to power America. There are 40 SEIA member companies in operation in Massachusetts working in all market segments – residential, commercial, and utility-scale. SEIA member companies provide solar panels and equipment, financing, and other services to a large portion of Massachusetts solar projects.

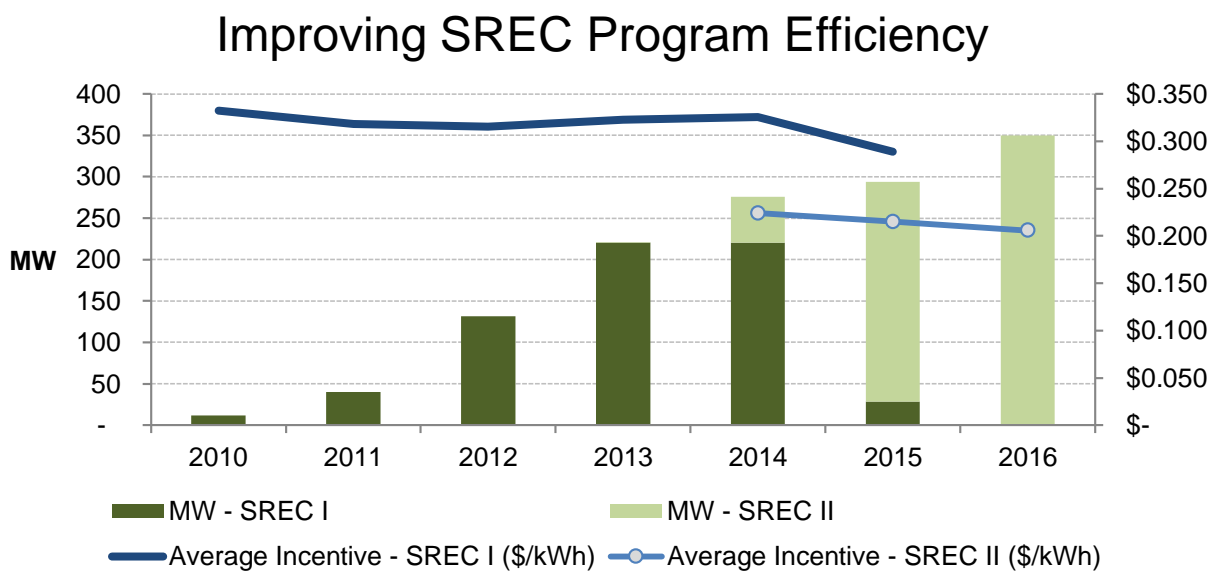
Massachusetts has been a clear national leader in the deployment of renewable energy resources, and SEIA is committed to the establishment of a diverse and self-sustaining solar industry in the Commonwealth. In that role, we are pleased to offer the following comments and suggestions for the design of a solar incentive program that meets the objectives of Chapter 75 of the Acts of 2016 (the “Act”).

A. Historic Success of the SREC Program

From the outset, the Solar Carve-Out Program has been an unqualified success. SREC I launched a fledgling industry into maturity. As of June 2016, there are more than 448 solar companies at work throughout the solar value chain employing more than 15,000 people. Annual installations of solar capacity have increased from less than 25 MW in 2008 to nearly 350 MW in 2016. Overall, the Commonwealth now ranks sixth nationally in terms of overall installed solar capacity and maintains its leadership position in the Northeast.



The SREC II program prudently improved upon the design and success of SREC I. With the introduction of the Market Sector concept, DOER demonstrated a thorough understanding of the diversity of project types and cost structures within the solar industry. The SREC factor mechanism further controlled costs and promoted public policy objectives through clear price signals for project developers to address underserved markets. As a result, the Massachusetts solar market is more robust and equitable than ever. Low income customers and those who otherwise can't install solar on their own property now have access to its benefits, and residences, businesses, and municipalities across the Commonwealth are saving millions in annual electricity costs. Most importantly, under the SREC II program, the industry has produced this vigorous growth at substantially lower incentive levels, keeping pace with annual declines in installation costs



Not only did SREC II represent a substantial reduction in overall incentive levels compared to SREC I, it guaranteed decreasing incentive levels over time through declining forward schedules for Alternative Compliance Payment rates and Auction Floor Prices. SREC II also created the SREC factor system to promote public policy objectives by encouraging development in certain underserved market sectors, and at the same time controlling costs.

Investor confidence, forged slowly through the SREC I, has been cemented under SREC II. Regional banks are now lending enthusiastically to projects, and have even introduced specialized products for solar. As a result, there have never been more options available to Massachusetts customers and project developers to own their solar assets.

Building on these successes, SEIA believes creating a new SREC III program may be the most efficient and quickest way to achieve the Baker Administration's incentive reduction goals while continuing solar industry growth.

B. Key Considerations When Designing the Successor Program

As advanced in the 2015 Net Metering and Solar Task Force Final report and SEIA's previous comments on the SREC II extension emergency regulations, we believe that any well-constructed incentive program should generally be designed around the following core principles.¹ The next incentive program should:

- a. Impose competitive discipline on market participants, and overall reduce incentives from current levels;
- b. Create a robust competitive marketplace while achieving other state policy objectives such as supporting community solar and improving access to solar projects by low income populations;
- c. Employ performance-based incentives (i.e., paid out over time based on demonstrated actual production);
- d. Avoid conflicts with Federal Energy Regulatory Commission jurisdiction over markets for energy and capacity; and
- e. Support both orderly deal flow and the orderly recovery of the system costs from its beneficiaries (i.e., a regularly available incentive structure to prevent start/stop markets, and regular contributions to the expenses associated with the electric distribution grid).

In general, the SREC program design satisfies these requirements, and is poised to do so even more effectively. For example, setting a new long-term solar goal, with installation capacity target and timeframe for installation, would help avoid the start/stop problem and create

¹ See Massachusetts Net Metering and Solar Task Force: Final Report to the Legislature (April 30, 2015) at 12. Available at: <http://www.mass.gov/eea/docs/doer/renewables/final-net-metering-and-solar-task-force-report.pdf>. We expand on these principles here for the purpose of adding clarity. See also Comments of the Solar Energy Industries Association on Solar Renewable Energy Credits II Emergency Regulations, 225 CMR Department of Energy Resources 225 CMR 14.00 Renewable Energy Portfolios Standard – Class I (May 27, 2016).

additional market certainty for project developers and investors. Further, investors have become increasingly confident in the current SREC market construct.

An SREC program design provides the ideal framework from which to build its successor program. The DOER can efficiently meet all of the objectives of the Act, while minimizing the potential for substantial market disruption, by using SREC II as a model. While SREC I and SREC II followed the same general program design, the graph above clearly shows that SREC II produced significantly lower SREC values while reaching its solar installation goals earlier than anticipated. As an added benefit, a new but substantially similar program would serve as a relief valve for developers and labor markets under immense pressure to achieve the existing mechanical completion deadlines under SREC II.

C. SREC III Program Design Features

The Act provided specific guidance for the DOER in the development of the next incentive program, intended to promote continued solar development for the benefit the residential, commercial, governmental and industrial electricity customers throughout the Commonwealth.

An SREC III program, structured similarly to SREC II but with some modest adjustments, would ensure an orderly transition and maintain a sense of market continuity critical for customers, developers, and investors. Further, by utilizing the decreasing incentive mechanism introduced under SREC II, the DOER could establish a long-term glide-path to a self-sustaining solar industry at a reasonable and diminishing cost to ratepayers.

The current SREC program design contains several basic levers DOER could employ in crafting SREC III to reduce immediate ratepayer impact and control long-term program costs. First, SREC III should feature a schedule of declining annual Alternative Compliance Payment rates and Auction Prices. Alternatively, or additionally, depending on the magnitude of the ACP and Auction Price schedule reductions, the DOER could consider reducing SREC Factors for certain Market Sectors. Similar to SREC II, the DOER should retain the authority to adjust SREC Factors at fixed and predetermined intervals, as market conditions dictate. Finally, the DOER could reduce the term of eligibility for projects under SREC III (e.g. 32 quarters rather than the current 40 quarters). SEIA encourages DOER to explore the use of any or a combination of the options above in order to achieve the policy and cost reduction goals established by the Act.

SEIA shares the Baker Administration's goal of ensuring that any solar incentive program should reflect the underlying system costs expectations, as well as the applicable electricity revenues and the availability of other state and federal incentives. As such, it is important to note that April's H.4173 significantly reduced the value of energy generated by behind-the-meter systems. The Act directs DOER to consider this reduction in net metering value in designing the new incentive program's design, specifically pertaining to community-shared and low-income solar facilities. These project types broaden the homeowners and businesses who can directly receive the benefits of solar, and SEIA believes that it is critical for DOER to support their feasibility and development at the highest available incentive level under the new program.

Similarly, the Act highlights the reality that electricity compensation rates vary by utility and service territory. Especially in light of the 40% reduction in net metering credit values imposed by H.4173, the development of projects in certain utility territories may be impractical without direct consideration under the new incentive program. SEIA supports comparable special consideration for projects which provide unique benefits to the distribution system based on their location.

**D. The Transition from the Current Program to the Successor Should Be Seamless:
Using Tariffs May Result in Delays**

DOER has suggested that the successor program could take the form of a tariff-based incentive that would set specific incentive amounts by tranche and which would decline over time, similar to the declining block mechanism currently employed by New York. Although tariff based options deserve further consideration as mechanisms to achieve DOER's solar goals -- and SEIA has supported the declining block approach in the past -- using tariff changes to execute this incentive mechanism may delay incentive program implementation.

We urge DOER to work toward creating a seamless transition between the end of the SREC II and the beginning of the new program, whatever form it takes. A gap between the two programs would stall growth in the solar market across sectors, potentially create problems with program administration for DOER, and hurt the Commonwealth's progress toward achieving its clean energy goals.

Even a short gap in the solar incentive program would make it difficult for solar firms to accurately predict customer costs and prices and may have a chilling effect on sales. A long gap between programs may also lead to solar firm retraction and industry layoffs. Further, a gap in the solar incentive program may also create administrative problems. Firms faced with the uncertainty about the start of the new program are likely to submit a large volume of applications to SREC II and create administrative and processing delays, as well as further postponing the cost savings of the new program.

As DOER has recognized, a tariff-based approach would rely on the cooperation of the Department of Public Utilities, the utilities themselves, and the DOER. As we understand it, DOER would develop model tariffs for consideration by the DPU and release them for public input. DPU would then open a docket for considering the tariffs, seek stakeholder input, modify and approve the model tariff, and would then order the utilities to modify their tariffs accordingly, based on the approved framework.

Although DOER points out that formal approval of changes to regulations also involves considerable amount of time and multiple steps, the difference is that one agency is responsible for implementation and can shepherd the proposal through to the implementation stage, instead of relying on the actions of other agencies, with more expansive responsibilities. In general, SEIA believes the single agency, regulatory approach would be easier to implement and less likely to result in delay and gaps in between incentive programs.

E. Competitive Supply Contracts For Community Solar Deserve Further Exploration But Should Not Distract DOER From Developing a Long Term Framework

DOER has encouraged parties to consider new incentive mechanisms that would be less dependent on legislative action to raise the new metering caps. At various listening sessions, DOER suggested that retail supply contracts could be utilized (and could be encouraged by incentive design and developer payments) as an alternative to virtual net metering. Given their existing customer bases, we agree with DOER that retail suppliers could be natural partners to help facilitate certain types of community solar projects. However, each project would then be required to become a qualifying facility and execute transactions through ISO NE.

This retail supply partnership option should be considered and further explored. The details of designing these incentives, where the payments come from, or what other kinds of non-incentive mechanisms would be used to encourage these kinds of contracts would be extremely important.

However, we caution that working out the details of this alternative should not distract DOER from its focus on designing the broader incentive framework as a successor to SREC II. In SEIA's view, this incentive framework should be considered in the context of a broader goal for solar that should include legislatively uncapping net metering. And we remain concerned that pursuing retail supply partnerships would still undercompensate community solar projects for the overall value that they provide to the electric grid.

F. Conclusion & Contact Information

We thank you for the opportunity to submit these comments. I can be reached at (518) 487-1744 or at dgahl@seia.org with any questions. We look forward to working with the DOER to design the next iteration of incentives for solar projects and we appreciate DOER's ongoing leadership to date.

Yours sincerely,

/s/

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